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C O N F I D E N T I A L SECTION 01 OF 03 TAIPEI 000546

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SUBJECT: KMT MAINLAND AFFAIRS DIRECTOR CHANG JUNG-KUNG
DISCUSSES CROSS-STRAIT EXPECTATIONS

Classified By: AIT Director Stephen M. Young, Reason 1.4 (b/d)

11. (C) Summary: President-elect Ma Ying-jeou will be under strong pressure to deliver on cross-Straits economic opening after his inauguration on May 20, KMT Mainland Affairs Director Chang Jung-kung recently told AIT. Although public expectations are high for quick movement on economic issues, neither the public nor the KMT expects early progress on sensitive political issues. Chang suggested Vice President-elect Vincent Siew's trip to Boao was used by the Chinese leadership to send a clear signal to the people of Taiwan that Beijing is willing to work on practical economic problems with leaders who do not push toward "red lines" on Taiwan independence. Although the resumption of SEF-ARATS talks will likely become the main channel for future cross-Straits dialogue, Ma may need to rely on informal mechanisms such as the "Macao framework" or KMT-CCP talks to make initial progress. KMT Honorary Chairman Lien Chan may meet with PRC President Hu Jintao during a planned visit to Beijing on April 28. SEF Chairman-designate P.K. Chiang plans to travel to China twice, first on April 24 and then on May 8, when he may meet with Taiwan Affairs Office (TAO) Director Chen Yun-lin. End Summary.

Cautiously Optimistic on Improving Relations

12. (C) AIT officers met with KMT Mainland Affairs Director Chang Jung-kung on April 2 and April 17 to discuss cross-Straits developments. Chang emphasized that conditions are ripe for Taipei and Beijing to improve relations after President-elect Ma Ying-jeou's inauguration on May 20. Expectations are high that the two sides will move quickly on expanding cross-Straits economic exchanges, such as starting weekend charter flights and expanding Chinese tourism to Taiwan. Nevertheless, Chang cautioned, neither the KMT nor the people of Taiwan expect much progress on sensitive political issues in the near term. So far, Chang noted, Beijing and Taipei have shown flexibility, putting aside controversial questions involving the status of the PRC and ROC. Chang emphasized the KMT strategy is to avoid directly addressing politics as long as possible. However, some friction is inevitable especially over Taiwan's participation in international organizations.

13. (C) With inflated public expectations, the Ma

administration will be under strong pressure to show early progress, Chang explained. However, getting cross-Strait charter flights up and running by the first week of July, as Ma has promised, could prove difficult. So far the DPP administration has not provided the KMT with detailed information on the extent, progress, and problems in prior negotiations with Beijing. The information is closely held within the Mainland Affairs Council (MAC), Chang explained, and the KMT has had to rely on academic and business participants for the information it has been able to garner. At first, the KMT may continue to utilize the "Macao framework" used by the MAC because the time required to get the SEF-ARATS channel up and running would make it impossible to meet the July deadline for beginning weekend charter flights.

Boao Shows China can Work with KMT

¶4. (C) The Chinese leadership seized upon Vice President-elect Vincent Siew's trip to Boao as a "historic opportunity" to make a goodwill gesture to the people of Taiwan, suggested Chang, who dismissed claims that Beijing was trying to use Boao to divert attention from problems in Tibet. By giving Siew a warm welcome and downplaying political disagreements, Beijing intended to send a clear signal to the people of Taiwan that it is willing to work on practical economic problems with leaders who do not push toward "red lines" on Taiwan independence.

¶5. (C) Chang noted that Beijing had tacitly accepted Siew's 16-character formulation ("Face reality, work toward the future, shelve disputes, and pursue a win-win scenario") for

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resuming dialogue on economic issues. The first 8-character phrase was a consensus reached ahead of the 2005 meeting between President Hu and then KMT Chairman Lien Chan. The second half of the formulation introduced by Siew did not contain anything objectionable to Beijing. Chang, who was involved in the 2005 Lien-Hu meeting, explained that the first 8-character phrase was significant because the formulation was proposed by Beijing at the last-minute. Lien and Hu had previously agreed to use the phrase "conclude the past, start a new future" (jieshu guoqu, kaichuang weilai), but the Chinese had called Chang to suggest the revised formulation. Chang said the KMT had accepted the revision in 2005 because the gesture implied "equal status" and a tacit recognition that the "current reality" is the existence of a PRC and an ROC, a nod toward accepting the concept of "one China, separate interpretations."

¶6. (C) Chang said KMT headquarters had been planning a trip for Chairman Wu Poh-hsiung to meet with Chinese leaders in Beijing prior to learning of the Siew visit to Boao. Given the success of Siew's visit, Wu's travel plans have been postponed.

Upcoming Exchanges, First Moves

¶7. (C) KMT Vice Chairman P.K. Chiang (Pin-kung), the Straits Exchange Foundation (SEF) Chairman-designate, will be traveling to Shenzhen, Xiamen, and Shanghai starting April 24 to thank the Taiwan business community for financial contributions and support to the KMT in the presidential election, Chang noted. Contrary to press speculation, Chiang has no plans to meet with PRC Taiwan Affairs Office Director Chen Yun-lin during this trip. On May 8, Chiang is planning a second trip to China to attend the first anniversary of the Taiwan Business Association, a group formed by Taiwanese businesses on the mainland. On the sidelines of this meeting, Chiang is likely to meet Chen Yun-lin, who serves on the board of the association. KMT Honorary Chairman Lien Chan is also scheduled to travel to Beijing on April 28 to present a two-story Peking Opera statue to congratulate China

on the upcoming Olympic games. Chang said he expects President Hu to host Lien to a dinner banquet.

Future of Party-to-Party Talks

18. (C) Chang said although KMT-CCP "party-to-party" talks would continue under a Ma administration, he expects the SEF-ARATS channel to resume playing the important role it had in the 1990s. SEF-ARATS dialogue will probably start shortly after Ma's inauguration on May 20, he predicted, especially since President Hu "opened the door" to such talks in his March 28 remarks. If quickly resuming the formal SEF-ARATS dialogue proves difficult, Chang explained, Ma may continue to use more informal mechanisms, such as the party-to-party talks or the "Macao framework" initiated by the DPP. Over the long-term, however, Ma would downgrade the role of party-to-party talks in part to reduce the influence of Honorary Chairman Lien Chan over cross-Straits affairs, Chang predicted.

19. (C) Even if downgraded, party-to-party talks will nevertheless remain useful as a forum for both sides to informally discuss a broad range of issues without the constraints of the SEF-ARATS channel. For obvious reasons, Chang stressed, the KMT has been careful not to seem too eager to open talks with Beijing. To the best of his knowledge, Chang said, there has been no direct communication between the KMT and CCP in recent months or in the period since the March 22 presidential election. Ma would be wise to wait until after his inauguration to open communication with Beijing, Chang added.

Taiwan Defense Enhancement to Continue Apace

110. (C) Chang said he understands the U.S. may have concerns that China will pressure Taiwan to reduce its

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defense capabilities in exchange for closer cross-Straits ties. Most in the KMT, however, do not see closer ties with China as coming at the expense of U.S.-Taiwan military cooperation. Like many senior KMT leaders, Ma was educated in the U.S. and understands U.S. concerns. A staunch anti-Communist, Ma believes maintaining a strong defense is essential to engaging Beijing from a position of strength. Moreover, improving the island's defense also helps insulate Ma and the KMT from DPP criticism that equates closer economic ties with "selling out" Taiwan.

Take on Cross-Straits Personnel Moves

111. (C) Chang expects Ma to name former MAC deputy director Kao Koong-lian to head up the organization. Kao and Ma served together as MAC vice chairmen (1991-93), explained Chang, and the two have a strong working relationship. Chang also said that, though not yet definite, he expects to leave KMT party headquarters to serve as the SEF secretary general under P.K. Chiang with whom he has close relations.

Comment

112. (C) Public expectations are running high for quick progress on cross-Straits economic relations after May 20, giving a boost to Taiwan's real estate and stock markets. While hoping to make headway on relatively "easy" cross-Straits issues like charter flights and PRC tourists during an initial "honeymoon" period with Beijing, the KMT is much more cautious about the possibility of breakthroughs on politically sensitive issues, such as a cross-Straits peace agreement.

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